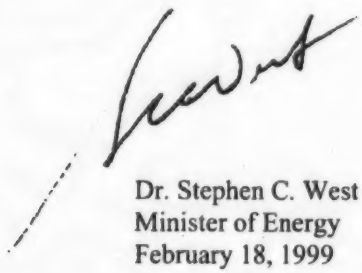
Energy

Business Plan 1999-2000 to 2001-02

Accountability Statement

This Business Plan for the three years commencing April 1, 1999 was prepared under my direction in accordance with the Government Accountability Act and the government's accounting policies. All of the government's policy decisions as at February 18, 1999 with material economic or fiscal implications of which I am aware have been considered in preparing the Business Plan.

The Ministry's priorities outlined in the Business Plan were developed in the context of the government's business and fiscal plans. I am committed to achieving the planned results laid out in this Business Plan.



Dr. Stephen C. West
Minister of Energy
February 18, 1999

Vision

The Ministry ensures development of Alberta's energy and mineral resources, and operation of energy utilities, occurs within a policy, administrative and regulatory framework that benefits both present and future Albertans, the owners of the resources.

Mission

To optimize the sustained contribution from Alberta's resources in the interests of Albertans.

Core Businesses

Alberta is rich in energy and mineral resources. Albertans own these resources, and the Ministry manages them on their behalf. The Ministry is responsible for Alberta's oil, gas, oil sands, coal, mineral resources and energy utilities. It is composed of two organizations, the Department of Energy and the Alberta Energy and Utilities Board.

The Department's core businesses are Revenue Management, Industry Development, and Resource Stewardship. The key responsibilities are to:

- Establish Albertans' share from mineral resource development.
- Assess, levy and collect revenue.
- Foster development, investment, trade and research in Alberta's energy and mineral resources.
- Manage the disposition of mineral rights.

The Alberta Energy and Utilities Board's (EUB) core businesses are Adjudication and Regulation; Applications; Surveillance and Enforcement; and Information and Knowledge. The key responsibilities are to:

- Adjudicate and decide on matters relating to the development and transportation of energy resources, and utility rates.
- Ensure energy resource development is in the public interest.
- Ensure public safety and environment protection through regulatory requirements, surveillance and enforcement.
- Ensure the availability of energy resource information to support responsible development.

Goals and Strategies

(Strategy responds to cross-government initiative [CG], or Growth Summit [GS])

1. **Secure Albertans' share from the development of their resources, on a timely basis.**

- Ensure objectives for royalty, freehold tax and tenure features are being achieved and respond to changing industry, government or economic conditions. (GS)
- Provide clear and complete business rules, processes and legislation to improve industry compliance and reporting.
- Improve assurance over revenue management through continuous process and reporting enhancements.

2. **Achieve a competitive electricity market for the benefit of Albertans.**

- Implement deregulation of the electric generation market, by working with industry and consumer associations. (GS)
- Introduce competition in the electricity retail sector to allow customers to make their own pricing arrangements for their power purchases, by working with industry, municipalities, and consumer associations to ensure an orderly and fair transition. (GS)
- Develop a process for monitoring and enhancing the competitiveness of new electricity markets which complements and does not duplicate any existing regulatory processes. (GS)
- Co-ordinate with utilities and industry stakeholders to minimize the possibility of service interruptions to customers during the two year transition period to deregulation.
- Ensure that power suppliers and customers are implementing strategies that are consistent with the Ministry's long-term vision of competitive markets in electricity.
- Provide clear and timely communication of changes in the electric industry to consumers, industry, and other government agencies. (GS)

3. **Sustain growth opportunities in the energy and mineral resource sectors through the development of responses to environmental concerns, particularly climate change.**

- Coordinate the implementation of Alberta's Environment and Energy Advantage action plan, with a focus on facilitating business and individual government action to improve energy productivity; coordinating government action to improve energy productivity; and conducting economic analysis of greenhouse gas reduction alternatives. (GS)
- Stimulate "best effort" responses to manage risks of climate change by building partnerships with industry, consumers and stakeholders. (GS)
- Address and mitigate climate change and other environmental issues affecting the energy sector, in a manner that is fair and equitable, and reflects Alberta's needs, by participating in provincial and national environmental processes.
- Support the government's commitment to sustainable and responsible resource management by providing on-going scientific, economic and environmental input to provincial and national initiatives.

4. Alberta's energy and mineral industries have competitive access to markets.

- Enable development of secondary processing opportunities in Alberta, by promoting effectively operating markets, in which resources are available at competitive prices.
- Maintain competitive access to external markets for Alberta's resources, by advocating and intervening in regulatory proceedings and other forums.
- Develop a non-energy minerals development policy for Alberta, in consultation with industry stakeholders, and improve non-energy minerals geological information to attract increased investment.
- In partnership with Intergovernmental and Aboriginal Affairs, Economic Development and other ministries, develop and implement Alberta's international strategies, integrating and promoting Alberta Energy's interests in market access, investment, research and technology, climate change, and international business development. (GS)
- In partnership with other government ministries, promote improved pipeline access and other infrastructure development. (GS)

5. Strengthen the competitiveness of the energy and minerals sectors.

- Streamline administrative and production reporting requirements for royalty, freehold tax and tenure programs, to achieve cost effective administration. (GS)
- Improve reliability of data and reduce costs, by developing a registry containing key oil and gas information, accessible and shareable by the Ministry and industry. (GS)
- Respond to changes in the business environment on a timely basis by amending royalty and tenure rules. (GS)
- Stimulate energy-related research aimed at reducing energy development costs in partnership with the Ministry of Science, Research and Information Technology. (GS)
- Streamline regulatory approval processes affecting energy and pipeline development, by working with other jurisdictions to resolve jurisdictional uncertainties, to continue deregulation where appropriate, and to protect Alberta's jurisdiction over resource ownership and management. (GS)
- Obtain certainty of processes, and access to non-renewable resources, by working in partnership with other ministries to develop more effective sustainable resource and environmental management approval processes, including aboriginal issues. (GS & CG – aboriginal)

6. The Department is managed in an effective, affordable manner and provides an attractive work environment for its employees.

- Implement the transfer of the Rural Gas and Electrification programs from Alberta Transportation and Utilities to the Department of Energy.
- Implement synergies and opportunities for service integration identified between the Department and EUB. (CG – shared services)
- Continue to evaluate alternative service delivery methods to improve efficiency including partnering and cost sharing of services with other Ministries and industry. (CG – shared services)
- Implement a human resource development program aimed at improving staff retention, attraction and development. (CG – human resources)
- Build service excellence and continuous improvement into Department business practices.

Performance Measures

Sharing the Profits from Resource Development - Alberta's royalty system is intended to balance two key objectives:

- To capture a fair share of the revenue from the development of resources, for the benefit of Albertans.
- To encourage continued investment in and development of the resources by leaving enough revenue with producers to cover costs and a fair profit.

For the core resources of oil and natural gas, an indicator of this balance is the portion of annual industry net operating revenue that is paid as royalty. Based on historical records, and the related industry activity and Crown revenue, the target range is 20% to 30%. In 1993, the three-year moving average of this ratio was 27% and in 1996 it was 24%.

Revenue Assurance - Assessing and collecting all revenue due to the Crown from development of its resources is a paramount responsibility of the Department. The following measures indicate whether Crown revenue has been assessed and collected in a timely manner:

- **Late Filing** - Penalties are assessed when a required filing is received after the due date. The penalty, introduced in January 1998, is $1,000 per document or part thereof, per month. Since then an average of 11% of documents have been subject to penalties.
- **Provisional Assessments** – To encourage accurate and timely volumetric reporting, provisional assessments are levied if filings are late or are not accurate. Assessment levels are an indication of the extent of gas royalty that is not reported accurately, the first time. For 1997/98 provisional assessments were 6.3% of total gas royalties.
- **Crude Oil Marketing** - The Crown's royalty on conventional crude oil is taken in kind (as product) and since June 1996 has been sold through marketing agents. Payment received from the sale of this oil is revenue to the Crown. A comparison of the posted prices that Edmonton refineries are willing to pay for sweet crude oil to the equivalent price received by the Crown, provides an indication of whether the Crown is receiving fair market value for its product. On average, in 1996 the Crown price was $0.52(Can$/m3) less than the postings. However, in 1997 it was $1.24 (Can$/m3) higher and as of August 1998 has been $1.29 (Can$/m3) higher.

Deregulation of Alberta's Electricity Industry - In 1998, the Electric Utilities Amendment Act (EUAA) was passed, as a key step in deregulation. The Act introduced further industry structure and regulatory reforms designed to increase efficiency in the electricity industry. These reforms will increase the competitiveness of wholesale electricity markets and retail markets. An Independent Assessment Team was also selected in 1998, which will establish long-term power purchase arrangements. An Internet forum was established which provides an opportunity for public comment on the development of regulations under the EUAA. Performance measures for the deregulation transition process are meeting the key process milestones: the auction design will be completed by October 1999, power purchase agreements will be in place by January 2001, and customer choice will start in January 2001.

In the coming months, as deregulation of Alberta's electricity industry is implemented, specific measures will be developed to assess the effectiveness of changes. In the interim, the growth in power pool participation is an indicator of the success of implementing competition in Alberta's electricity

market. The number of power pool participants registered has increased from 22 in 1995 to 38 in 1997. The target is to increase participation by a further 40% by 2001.

Greenhouse Gas Emissions Reductions

Government Action to Improve Energy Productivity - The Government of Alberta has demonstrated leadership in improving energy productivity through its actions to reduce emissions from government operations. By the end of 1997, actions taken to reduce greenhouse gas emissions associated with Alberta government operations had resulted in a 14.6% reduction in emissions (below 1990 levels). This means Alberta is already three years ahead of schedule for achieving its own target of reducing emissions by 14% (below 1990 levels) by the year 2000.

Action by Alberta Organizations to Improve Energy Productivity - The number of action plans registered with the National Voluntary Challenge and Registry Program indicates success in obtaining voluntary action by Alberta organizations to reduce greenhouse gas emissions. In the past, the Ministry has measured percent of emissions covered by action plans but the actual number of plans is a better indicator of increasing the scope of the initiative. The number of registered action plans increased from 55 in 1995 to 103 in 1997. The target is to increase the number of registered plans.

Additional measures will be established to monitor the effectiveness of the Department in implementing elements of Alberta's climate change strategy as the action plans are further developed.

Natural Gas Pipeline Capacity - The Department monitors instances when demand for throughput exceeds available capacity to evaluate market access. In recent years, "take-away" pipeline capacity has been insufficient to meet demand, reducing the market value of Albertans' natural gas resources. The percent of available capacity used on an annual average basis has increased from 93% in 1995 to 97% in 1997, while year to date figures suggest usage at 99% for 1998. The target is to increase natural gas pipeline capacity. Pipeline capacity has increased annually from 10.38 bcf per day in 1995 to 10.69 bcf per day in 1997 and is expected to reach 11.9 bcf/d by late 1998 with the TransCanada Pipelines and Foothills / Northern Border expansions. The Alliance project will increase capacity to 13.3 bcf/d by the end of 2000.

Crude Oil – Average Apportionment - The application of new technologies and record levels of activity have resulted in increased oil production out of the Western Canadian Sedimentary Basin. Despite two major crude oil pipeline expansions in 1997 (Express and IPL SEP II), production continues to outstrip Alberta's take-away capacity. In 1996 and 1997, average apportionment (rationing of pipeline capacity) for light crude declined from 15% to 11%, and from 10% to 9% for heavy crude. The target is to increase expansion and minimize apportionment.

Secondary Processing – The volume of primary resources that undergo secondary processing in Alberta is an indication of the growth in Alberta's processing capability. The target is to encourage steady growth by industry. In 1997, the amount of bitumen upgraded to synthetic crude increased to 286.4 Mb/d from 279.5 Mb/d in 1996. Ethane, used as feedstock by the petrochemical industry, increased from 131.2 Mb/d to 138.6 Mb/d in 1997.

Cost of Compliance - An indicator of the competitiveness of Alberta's energy sector is the cost to comply with the administrative and regulatory requirements associated with non-renewable resource exploration and development. In 1997/98, the Royalty and Related Information Review determined that industry and government costs associated with natural gas royalty administration were 3% of 1996 net royalty paid, which is much lower than was generally believed. The Ministry is now developing key indicators that will provide broader information on compliance costs in Alberta. The target is to maintain Alberta's competitive advantage.

Department Services - Reliability, responsiveness and consistency of key services are an important consideration to industry when formulating their development and capital investment plans. Monitoring service levels and client satisfaction enables the Department to ensure services keep pace with changing requirements in the energy sector. The key services are mineral rights posting requests, identification of access restrictions, timely processing of applications and agreements, and timely processing and assessment of filings. The Department is committed to meeting its service standards 95% of the time.

With respect to client satisfaction, the Department has adopted the Government of Alberta's service excellence framework, focussing on courteous, competent and timely service. The Department's first survey was completed by Environics West, in March 1998. The results showed an average satisfaction rating of 76%, reliable to within +/- 4.5% at a 95% confidence interval. A specific target cannot be set until more analysis is performed, but the Department's intent is to use client feedback to improve service.

Alberta Energy and Utilities Board
Goals, Strategies and Performance Measures

7. **Provide fair, objective and efficient adjudication and regulation that encourages industry to conduct responsible resource and facility development, and that results in reliable utility service at fair and reasonable rates.**

   - Develop a regional approach for consideration of major mineable oil sands developments to ensure optimum resource development strategies.
   - Design regulatory processes to accommodate changes occurring in electricity generation, transportation and marketing. (GS)
   - Expedite regulatory review processes. (GS)
   - Develop regulatory processes to effectively address gas-over-bitumen conservation.
   - Improve the timeliness of issuance of decision reports following hearings.
   - Review the EUB cost recovery model to ensure the ability to meet service expectations with an appropriate distribution of costs.

8. **Ensure an effective and efficient application process.**

- Revise reservoir development application requirements and review processes, to shorten processing time.
- Reduce application information requirements and simplify review processes for mineable oil sands developments through implementation of approvals based on operating criteria.
- Develop pilot system for electronic filing of applications. (GS)
- Increase electronic access to application guides. (GS)

9. **Maintain public safety, conservation of resources, protection of the environment and quality utility service through effective surveillance and enforcement programs.**

- Implement regulatory processes to support reduced flaring objectives as recommended by the Clean Air Strategic Alliance.
- Reduce potential public liability for abandonment and reclamation of inactive facilities through reduction in numbers.
- Develop approaches to surveillance of utility operations to support streamlined approval processes.
- Address Albertans' concerns about energy operations through focused surveillance of higher-risk operations, problem operators, and areas of intense development.
- Achieve lasting improvement of company compliance through the use of consistent, escalating enforcement actions in all regulatory areas.

10. **Ensure useful and timely information is available to support the effective, efficient and sustainable development of energy and mineral resources.**

- Expand electronic information exchange by capturing Basic Well Data electronically. (GS)
- Enhance efficiency of data dissemination by outsourcing or privatizing the distribution of energy information.
- Implement recommendations from the Royalty and Related Information Review regarding volumetric data reporting and development of a data registry. (GS)
- Facilitate interest in minerals exploration in northern Alberta by identifying and mapping geologically favourable areas for diamonds and industrial and metallic mineral deposits.

Performance Measures

Stakeholder Confidence Index - Stakeholder confidence is an indicator of the EUB's effectiveness as a regulator. The index is based on a survey of the EUB's public and industry stakeholders that measures satisfaction with service and quality in a number of areas. Initial benchmarking based on survey results will be completed in 1998/99.

Rate of Deficient Applications – Target of 4 % data deficiency for routine facility applications. The rate of deficient applications submitted to the EUB indicates the extent to which the EUB has clearly communicated its application information requirements to industry, and industry's level of understanding. Data deficiency in routine facility applications has reduced from a rate of 50% at year end 1996 to approximately 10% in 1998.

Application Turnaround Time – Target of 2.5 calendar days (average) for routine facility applications. Application turnaround time is an indicator of the efficiency of the EUB's application-handling processes. In 1997/98, application turnaround time was reduced from an average of 10 days to three-four days for routine applications, despite record application activity.

Compliance Improvement Among Poorest Operators – Target of over 60%. Measures the effectiveness of surveillance and enforcement practices in achieving lasting improvements by operators with poor inspection records. The group of companies targeted in 1995 improved compliance by 80% during 1996. Companies targeted in 1996 improved compliance by 73% during 1997.

Percentage of Solution Gas Production Conserved – Target of over 90%. Measures the effectiveness of regulatory requirements and industry practices in achieving an appropriate degree of conservation and environment protection with respect to the flaring of solution gas. In 1997, the solution gas conservation rate was 93.5%

Non-compliance in Submission of Required Data – Target of under 5%. Non-compliance in submission of required data is an indicator of the effectiveness of surveillance and enforcement in the data collection areas, industry's awareness of the data required, and of the overall quality of the collective database. From 1997 to 1998, the EUB has seen an improvement in submission of volumetric production data, with late filings reduced from 22% to less than 1%, and errors reduced from 12% to less than 2%. Significant improvement has also been realised in the collection of well test data in 1998.

Regulatory Data Transacted Electronically – Target of over 65%. Indicates the efficiency of interaction with stakeholders in the EUB's data collection and dissemination function. Performance data is being collected.

Ministry of Energy Key Initiatives

C – complete by the end of the fiscal year. IP – started and in progress, but not complete.	Target Timelines			
	1998/99	1999/00	2000/01	2001/02
Electricity Deregulation				
▪ Electric Utilities Amendment Act	C			
▪ Independent Power Pool Council appointed	C			
▪ Distribution Access, Direct Access and Market Surveillance Administrator Regulations	C			
▪ Independent Assessment Team selected	C			
▪ Customer choice regulations		C		
▪ Auction design & Power Purchase Agreements (PPAs) determined		C		
▪ PPAs in place (i.e., deregulation)			C	
▪ Customer Choice in place			C	
Royalty and Related Information Review				
▪ Stakeholder consultation and Ministerial approval of recommendations	C			
▪ Decisions on scope of recommendations, project plans and funding	C			
▪ Gas Royalty regime related changes				
▪ Phase I	C			
▪ Phase II		C		
▪ Phase III			IP	C
▪ Cross-government assessment of Crown responsibility for environmental costs associated with oil and gas production		IP	IP	C
▪ Industry related Volumetric Reporting and Production Accounting		IP	IP	C
▪ Shared Information Registry		IP	IP	C
Climate Change				
▪ Alberta Climate strategy	C			
▪ Consultation with Albertans		C		
▪ National Climate Change Strategy Development	IP	C		
▪ Implementation of action plans		IP	IP	IP
Non-energy Mineral Development				
▪ Policy Development	IP	C		
▪ Survey and map non-energy minerals	IP	IP	IP	IP

C – complete by the end of the fiscal year. IP – started and in progress, but not complete.	Target Timelines			
	1998/99	1999/00	2000/01	2001/02
Alberta Royalty Tax Credit				
• Review and Recommendations Approved	C			
• Legislation, design and business rules for new program		C		
• Implementation			C	
Develop Regional Planning Approach with Industry to Minimize Sterilization of Oil Sands Reserves				
• Consultation with industry on the scope of the review	C			
• Study and analysis		C		
• Implementation			C	
New Approval Processes for Wells Drilled in Bitumen Areas				
• Inquiry report released	C			
• Joint Committee recommendations on implementation	C			
• Develop new processes and regulations		C		
Enhanced Surveillance of Flaring in Support of CASA's Flaring Objectives				
• CASA recommendations	C			
• Develop new systems and processes		C		
• Surveillance			C	
Develop Systems for Electronic Capture of Basic Well Data				
• Business rules developed in consultation with industry	C			
• System development and implementation		C		
Streamline Mining Approval Processes				
• Consultation of regulatory objectives and criteria	C			
• Implementation	IP	C		
Year 2000 Compliance				
• Ministry's mission critical systems compliant	C			
• Monitoring industry compliance	IP	IP		

ENERGY

MINISTRY INCOME STATEMENT

(thousands of dollars)

	Comparable 1997-98 Actual	Comparable 1998-99 Budget	Comparable 1998-99 Forecast	1999-2000 Estimates	2000-01 Target	2001-02 Target
REVENUE						
Non-Renewable Resource Revenue						
Natural gas and by-products royalty	1,659,823	1,282,000	1,426,000	[illegible],000	1,672,000	1,904,000
Crude oil royalty	913,975	644,000	409,000	346,000	410,000	413,000
Synthetic crude oil and bitumen royalty	192,364	50,000	63,000	43,000	33,000	22,000
Bonuses and sales of Crown leases	1,071,207	650,000	448,000	430,000	470,000	570,000
Rentals and fees	147,898	147,000	143,000	143,000	143,000	148,000
Coal royalty	18,434	17,000	17,000	15,000	14,000	14,000
Total Non-Renewable Resource Revenue	4,003,701	2,790,000	2,506,000	2,672,000	2,742,000	3,071,000
Freehold mineral rights tax	131,292	101,000	104,000	98,000	105,000	110,000
Industry levies and licences	45,937	43,081	44,801	54,782	55,495	55,945
Internal government transfers	-	-	-	8,200	8,200	8,200
Other revenue	14,249	9,055	9,248	6,033	5,800	5,750
MINISTRY REVENUE	4,195,179	2,943,136	2,664,049	2,839,015	2,916,495	3,250,895
EXPENSE						
Program						
Departmental Support Services	18,087	14,884	14,884	17,440	17,942	17,942
Mineral Operations	17,517	21,378	21,378	28,642	28,642	28,642
Planning and Development	6,884	7,847	7,847	6,937	6,937	6,937
Rural Utilities	11,232	7,256	7,256	7,150	7,150	7,150
Departmental Amortization	4,778	4,408	4,408	4,408	4,588	4,588
Energy Regulation	66,465	59,571	61,819	64,759	65,381	65,331
Orphan Abandonment	901	3,400	3,400	7,325	7,375	7,825
Gas Alberta	779	460	91	-	-	-
Department - Valuation Adjustments	11,339	35	35	35	35	35
MINISTRY EXPENSE	137,982	119,239	121,118	136,696	138,050	138,450
Gain (Loss) on Disposal of Capital Assets	4,165	-	-	-	-	-
MINISTRY NET OPERATING RESULT	4,061,362	2,823,897	2,542,931	2,702,319	2,778,445	3,112,445

CONSOLIDATED NET OPERATING RESULT

(thousands of dollars)

	Comparable 1997-98 Actual	Comparable 1998-99 Budget	Comparable 1998-99 Forecast	1999-2000 Estimates	2000-01 Target	2001-02 Target
Ministry Revenue	4,195,179	2,943,136	[illegible],664,049	2,839,015	2,916,495	3,250,895
Inter-ministry consolidation adjustments	-	-	-	(8,200)	(8,200)	(8,200)
Consolidated Revenue	4,195,179	2,943,136	2,664,049	2,830,815	2,908,295	3,242,695
Ministry Program Expense	137,982	119,239	121,118	136,696	138,050	138,450
Inter-ministry consolidation adjustments	-	-	-	-	-	-
Consolidated Program Expense	137,982	119,239	121,118	136,696	138,050	138,450
Gain (Loss) on Disposal of Capital Assets	4,165	-	-	-	-	-
CONSOLIDATED NET OPERATING RESULT	4,061,362	2,823,897	2,542,931	2,694,119	2,770,245	3,104,245